

APAC Monthly Update

May 2015

APAC Monthly Update summarizes important regulatory developments, meetings, committee activities and conferences in the region.

Regulatory Activities

Asia-Pacific:

On May 7, ISDA attended an EU Day Seminar "The Investment Plan for Europe: a Role for Asia"

On May 21, ISDA held the semi-annual meeting of the ISDA Asian Steering Committee.

On May 27, ISDA joined an IMF presentation on its global financial stability report.

Australia:

On May 18, ISDA, GFMA, ABA and a group of Australian banks met with APRA to discuss FRTB and other Basel issues. On the same day, ISDA met with the Australian Council of Financial Regulators. Topics of discussion included the ISDA Resolution Stay Protocol, WGMR implementation, and Australian 3B entity reporting issues.

On May 20 ISDA met with ASIC Commissioner Cathie Armour to discuss progress on the G20 reform agenda.

Hong Kong:

On May 15, ISDA participated as a member in HKEx's quarterly User Committee Meeting. On the same day, ISDA met with HKMA to discuss issues related to the ISDA Resolution Stay Protocol.

On May 21, ISDA, GFMA, IIF and industry representatives met with the HKMA to discuss FRTB and other Basel issues.

Indonesia:

On May 11, ISDA visited Bank Indonesia to discuss issues related to the ISDA Master Agreement, including choice of law issues.

Singapore:

On May 12, ISDA met with MAS to discuss developments related to WGMR and recovery and resolution.

On May 28 and 29, ISDA joined the Symposium on Asian Banking and Finance sponsored by the Federal Reserve Bank of San Francisco and the Monetary Authority of Singapore.

Committee/Working Group Activities

North Asia L&R:

On May 26, ISDA held its Asia-Pacific Legal & Regulatory Committee meeting in Hong Kong. Topics discussed at the meeting included the rules issued by CSRC to clarify overseas investors' shareholding rights under the Stock Connect Regime, the State Council's removal of approval requirement for offshore bond issuances, the agreement entered into by SFC and CSRC on the Mainland-Hong Kong mutual recognition of funds, consultation conclusions regarding trade reporting in Hong Kong, the failure of the Korean National Assembly to vote on changes to KRX's default waterfall, KRX's improvements to market stabilization facilities and KRX's updated version of its disclosure framework on CPSS-IOSCO PFMI's.

ISDA also provided an update on the following Australia-related topics: an update on the recent trip to Sydney, the memorandum of understanding signed between RBA and MAS on cooperation arrangements to access information on derivatives contracts held in trade repositories in Singapore, APRA's final versions of APS 110 and APS 330. The meeting also considered the Indian netting considerations as well as developments in Indonesia and Malaysia.

ISDA updated the meeting on the SICC, MAS's framework for D-SIBs and the third bilateral swap arrangement with MAS, Bank of Thailand's press release on capital flows relaxation and the decree from the Vietnamese Government for trading of derivatives.

ISDA also provided updates on the recent ISDA documentation efforts and global regulatory developments.

South Asia L&R:

On May 28, ISDA held its Asia-Pacific Legal & Regulatory Committee meeting in Singapore. Members' topics raised included a discussion on the ISDA 2005 Commodity Definitions and the need for a Bahasa Indonesia translation and the question on the MAS threshold and registration as a significant derivatives holder.

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ISDA updated the meeting on the SICC, MAS's framework for D-SIBs and the third bilateral swap arrangement with MAS, Bank of Thailand's press release on capital flows relaxation and the decree from the Vietnamese Government for trading of derivatives.

The following North Asia topics were also discussed: the rules issued by CSRC to clarify overseas investors' shareholdings rights under the Stock Connect Regime, the State Council's removal of approval

requirement for offshore bond issuances, the agreement entered into by SFC and CSRC on the Mainland-Hong Kong mutual recognition of funds, Hong Trade Reporting, the failure of the Korean National Assembly to vote on changes to KRX's default waterfall, KRX's improvements to market stabilization facilities and KRX's updated version of its disclosure framework on CPSS-IOSCO PFMI's.

ISDA also updated the meeting on the following ISDA efforts: the publication of guidance for confirmation of bespoke tranching transactions, the draft guide to ISDA and EMTA FX derivatives documentation and currency provisions, ISDA/FIA Europe's Capital Markets Union Position Paper and response to European Commission Green Paper on Building a Capital Markets Union, the launch of ISDA and Markit's new EMIR Classification Tool on ISDA Amend and ISDA's launch of UTIPrefix.org to help drive global data standards.

The meeting considered the following global developments: the EC's consultation paper on EMIR review, the European Parliament's endorsement of its ECON benchmarks report, EBA's launch of its public consultation on draft RTS defining the valuation of derivative liabilities for the purpose of bail-in in resolution, ESMA's consultation paper on the clearing obligation of additional classes of interest rate derivatives, ESMA's recognition of ten third-country CCPs and the U.S. SEC's proposed rules governing the application of certain requirements to security-based swap transactions connected to a non-U.S. person's dealing activity in the U.S..

Other Working Groups:

AEJ Data & Reporting Compliance WG:

The working group met on 27 May in HK, Singapore and Sydney. The WG discussed recent regional and global developments including the upcoming Hong Kong mandatory trade reporting obligation, expected timeframes for APAC regulator consultation on non-cleared margin requirements, the Australian regulator consultations on single-sided reporting for Phase 3B reporting entities and central clearing, and approaches to the reporting of collateral. The working group also discussed arrangements and considerations for going live with universal transaction identifier (UTI) 'share-and-pair' requirements across the APAC region.

Asia Identifiers & Delegated Reporting Sub-WG:

The sub-working group had a call on 29 May. The group discussed timing and approaches to the UTI share-and-pair requirement, in particular potential dates for APAC counterparties to assume generation and communication responsibilities, and for which jurisdictions.

Members' Meeting/Activities

Sydney Members' Meeting:

On May 18, ISDA held its ISDA members meeting in Sydney, Australia. Members' topics raised included and update on the Volcker Rule and its impact on foreign banks, the status of the Financial Sector Legislation Amendment (Netting Contracts) Bill 2013 and ASCI transaction reporting in relation to duplication of reporting requirements globally. ISDA provided an update on developments relating to the WGMR and key takeaways from the ISDA AGM in Montreal.

The meeting also discussed ISDA's submission on the Australian Treasury Consultation Paper on Resolution Regime for Financial Market Infrastructures, the expected Treasury consultation on a simplified reporting regime for Phase 3B Reporting Entities, ASIC's amendment to its rules on trade reporting obligations for OTC derivatives following industry consultation, ASIC's class order setting out

an alternative definition of “nexus” concept and ASIC’s transitional relief with respect to Universal Transaction Identifier (UTI) “share-and-pair” arrangements with a September 30 2015 expiry date.

Regulatory Developments

Australia:

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APRA finalises Basel III disclosure standards

On May 8, the Australian Prudential Regulation Authority (APRA) released a response to submissions and final versions of Prudential Standard APS 110 Capital Adequacy (APS 110) and Prudential Standard APS 330 Public Disclosure (APS 330), which incorporate new disclosure requirements for authorised deposit-taking institutions. These requirements take effect from July 1, 2015, and relate to the leverage ratio, the liquidity coverage ratio and the identification of globally systemically-important banks. These requirements are based on revisions to the Basel Committee on Banking Supervision’s disclosure framework, which aims to improve the comparability of banking institutions’ risk profiles and facilitate market discipline by providing consistent information about key risk metrics to market participants and other interested parties.

Australian regulators consult on single-sided reporting and clearing

On May 28, announcements were made by the Australian Treasury and the Australian Securities & Investments Commission (ASIC) about the release of exposure drafts of legislative documents, an explanatory guide and a consultation paper to give effect to two proposals. The first proposal is to enable single-sided reporting by Phase 3B reporting entities under the Australian trade reporting regime from October 2015 (through the release of proposed Treasury amendments to the Corporations Regulations). The second proposal is to introduce mandatory central clearing for certain interest rate derivatives in certain currencies from April 2016 (through the release of a draft Ministerial determination, proposed Treasury amendments to the Corporations Regulations and an ASIC consultation paper).

The proposals relating to single-sided reporting relate to the Australian Government’s announcement in December 2014 that it would provide relief from the trade reporting requirements by allowing ‘single-sided reporting’ for entities with low levels of OTC derivatives transactions, provided they conclude the transactions with counterparties that are already required or have agreed to report the trade. The relief will be implemented by introducing single-sided reporting for Phase 3B entities as defined in the trade reporting derivative transaction rules made by ASIC. Phase 3B entities as defined in those rules have less than \$5 billion gross notional OTC derivatives positions outstanding.

The proposals relating to central clearing will require certain interest rate derivatives traded between internationally-active dealers in Australian dollars and four global currencies (US dollars, euro, Japanese yen and British pounds) to be cleared through a licensed or prescribed clearing and settlement facility. ASIC consultation paper CP 231 Mandatory central clearing of OTC interest rate derivative transactions (CP 231) covers issues such as the entities which will be subject to the clearing requirements, the cross-border application of the draft derivative transaction rules (clearing) and the transaction and asset classes subject to the clearing requirements.

Deadline for comments on the Treasury documentation is June 26, and that for comments on the ASIC documentation is July 10.

Hong Kong: Trade reporting rules gazetted

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On May 15, the Hong Kong Monetary Authority (HKMA) and the Hong Kong Securities and Futures Commission (SFC) released an update on trade reporting. This included a conclusions paper on a consultation on mandatory reporting and related record-keeping obligations under the new over-the-counter derivatives regime, and updated FAQs (which remain in draft form, pending enactment of the rules). Proposals on certain aspects of the reporting regime have been revised after taking market feedback into account.

The revised Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules were gazetted on May 15, and were tabled before the Legislative Council on May 20 for negative vetting, along with a package of related subsidiary legislation. Subject to the legislative process, the mandatory reporting and related record-keeping obligations for regulated entities (ie, authorised institutions, approved money brokers, licensed corporations and central counterparties operating in Hong Kong) are expected to take effect on July 10, 2015.

The authorities' current plan is to conduct the next two rounds of public consultation later this year. The first will focus on a proposed product expansion for the mandatory reporting obligation and revised proposal for a valuation reporting requirement. The second will focus on the detailed proposals for implementing mandatory clearing and related record-keeping obligations.

India: Draft guidelines issued on NSFR

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On May 28, the Reserve Bank of India (RBI) released its draft guidelines on the net stable funding ratio (NSFR) under Basel III. These draft guidelines are based on the final NSFR rules published by the Basel Committee on Banking Supervision in October 2014, and take into account Indian conditions. The deadline for comments is June 26. The RBI proposes to impose these requirements on banks in India from January 1, 2018.

Singapore: MAS publishes framework for D-SIBs

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On April 30, the Monetary Authority of Singapore (MAS) published its framework for identifying and supervising domestic systemically important banks (D-SIBs) in Singapore, and the inaugural list of seven D-SIBs.

The MAS will apply additional supervisory measures on banks designated as D-SIBs. Banks that have a significant retail presence in Singapore will be required to locally incorporate their retail operations. Locally-incorporated D-SIBs will need to meet higher capital requirements – a minimum common equity Tier 1 capital adequacy ratio (CAR) of 6.5%, Tier 1 CAR of 8% and total CAR of 10%, compared with the Basel III minimum requirements of 4.5%, 6% and 8%, respectively. Other measures, such as recovery and resolution planning, liquidity coverage ratio requirements and enhanced disclosures, will also apply, depending on the bank's operating model and structure. The MAS will allow a transition period for affected banks to comply with the requirements that are currently not in effect, such as the local incorporation requirement.

South Korea:

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KRX releases self-assessment report on PFMI

On April 23, the Korea Exchange (KRX) published an updated version of its disclosure framework on the Committee on Payment and Settlement Systems and International Organization of Securities Commission's Principles for Financial Market Infrastructures (CPSS-IOSCO PFMI), which is a self-assessment report on the PFMI. This report, in line with the CPSS-IOSCO disclosure template, contains major changes since the last update of the disclosure framework in July 2013, including OTC clearing services.

In this report, KRX also announced it will establish a technological platform for disclosure in 2015, and will start disclosing quantitative information (including the C-factors for both exchange-traded and OTC products) in 2016, in accordance with the public quantitative disclosure standards for CCPs published by CPMI-IOSCO.

KRX announces improvements to market stabilisation facilities

On April 29, the Korea Exchange (KRX) announced its revised business regulations for securities and derivatives markets to improve market stabilisation facilities and expand daily price limits in these markets. For the derivatives markets, key elements include:

- Improved price stabilisation safeguards: In line with circuit breakers that have been strengthened with interval-based triggering in the stock markets, the trading of derivatives products will also be suspended by intervals accordingly.
- Expansion of daily price limits: An interval-based price limit will be introduced for equity-related derivatives products in line with the expansion of daily price limits in the stock markets.
- Introduction of intraday additional customer margin: As a result of the expanded range of price limits for underlying assets, intraday additional customer margin will be introduced to ensure proactive risk management. In cases where underlying assets change beyond a certain level, additional customer margin must be demanded by a clearing member to customers when their total deposit amount falls short of the intraday customer maintenance margin. When a call for intraday additional customer margin has been made, clearing members should reject orders placed by the customer until they check the deposit of the requested margin, but allow the customer to send offsetting orders for reducing requested margin deposit amounts (or relevant risk).

The KRX plans to revise relevant enforcement rules including details and timeline for the implementation of the revised regulations.

Vietnam: Regulations for derivatives market published

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The Vietnamese government has issued a new decree 42/2015/ND-CP (Decree 42), which is understood to provide general provisions on the establishment of a derivatives market in Vietnam. Decree 42 provides information on the types of instruments that may be traded in Vietnam, as well as the participants that are expected to take part in this market. The scope of Decree 42 does not cover interest rate swaps or foreign currency swaps – these continue to be regulated by the State Bank of Vietnam. Decree 42 is the first set of regulations that are expected to be released this year aimed at developing the Vietnamese market.

Upcoming committee and working group meetings/conferences

Meetings:

APAC Legal & Regulatory Advisory Group Meeting	Jun 2
ISDA WGMR Legal & Documentation Call	Jun 4
Mumbai Members' meeting	Jun 9
Seoul Members' meeting	Jun 19
AEJ Data and Reporting Compliance Working Group Meeting	Jun 24
APAC CCP Risk call	Jun 24
South Asia L&R Meeting	Jun 25
Asia Identifiers & Delegated Reporting Sub-Working Group call	Jun 26
Asia Identifiers & Delegated Reporting Sub-Working Group Meeting	Jun 26
North Asia L&R Meeting	Jun 30

Conference:

Current Issues in the Derivatives Landscape: Margin, Collateral, CCPs, SEFs and Global Swap Regulations – Seoul	Jun 18
Understanding the ISDA Master Agreements Regulatory Changes and Impact on ISDA Documentation Including Japanese Issues – Tokyo	Jun 22
Understanding Collateral Arrangements and the ISDA Credit Support Documents Including Regulatory and Current Issues on Collateral – Tokyo	Jun 23
Understanding the ISDA Master Agreements Conference – Hong Kong	Jun 25
Understanding Collateral Arrangements and the ISDA Credit Support Documents Conference – Hong Kong	Jun 26

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